Statement for the Record by
The Honorable Gordon England
Deputy Secretary of Defense
Before the Senate Committee on Appropriations
23 July 2008

Chairman, Members of the Senate Committee on Appropriations, we deeply appreciate your concern and steadfast support of our military and welcome the opportunity to appear here today to provide an update on progress and improvements being made to the oversight of defense contracts for Operation Iraqi Freedom (OIF). We are pleased to report that while much work remains to be completed, meaningful progress has been made.

This is now the ninth congressional hearing in which the Department has participated on this subject, in addition to five briefings and six interviews. Additionally, the Department has submitted almost 250,000 pages of documentation to the various oversight committees. This committee is to be commended for the extraordinary amount of time and attention you have given to this very important issue.

We're delighted to have with us Department of Defense Acting Inspector General Gordon Heddell, Commanding General, U.S. Army Materiel Command, General Ben Griffin, and Director of Defense Procurement, Acquisition Policy and Strategic Sourcing, Mr. Shay Assad. Also, at the request of this committee, I'm joined by representatives from the Defense Contract Audit Agency and the Defense Contract Management Agency.

In addition to this statement for the record, the DoD Acting Inspector General, Mr. Gordon Heddell will be submitting a copy of the Department of Defense Inspector General's (DoD IG) Report No. D-2008-086, summarizing 302 Operations Enduring and Iraqi

Freedom-related audit reports and testimonies issued by the Defense oversight community—including the DoD OIG, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Special Inspector General for Iraq Reconstruction (SIGIR), and the Government Accountability Office (GAO)—beginning FY 2003 through FY 2007.

Oversight of DoD Contracts for OIF

Since January 2003, DoD has obligated over \$450 billion in support of OIF¹. The majority of these funds have been spent on non-contract related items, such as personnel costs. However, of this total amount, approximately \$78.8 billion has been obligated through 103,000 contract actions.² The Department of Defense (DoD) has obligated over 90% of these funds—roughly \$71 billion—through nearly 98,000 contract actions.

Obviously, the volume and complexity of contracts have increased with the war, and DoD takes the accountability and oversight of these contracts very seriously. The Department's approach has been to conduct and support thorough reviews and investigations of programs and operations, to rapidly identify problem areas, and develop and implement improvement plans. As such, multiple DoD agencies have engaged in aggressive reviews and oversight, uncovering instances of fraud, waste, and abuse – as well as recommending corrective actions. Since the start of the war in 2003, the Defense oversight community and GAO have performed over 300 audits related to the Global War on Terror (GWOT). To date, DoD has implemented or is in the process of resolving most of the more than 980 proposed recommendations. In addition, the largest DoD audit operation—the Defense Contract Audit

¹ Source: Defense Finance and Accounting Service, Cost of the Global War on Terror Monthly Report as of May 2008.

² Contract actions include: contract awards, modifications, and purchase/delivery orders above \$25,000.

Agency (DCAA) has performed in excess of 2,500 GWOT-related contract audits, taking exception to \$12 billion as either not acceptable or not supported. The monetary result has been savings and restitutions in excess of \$1.3 billion.

Department of Defense Inspector General's Report

The DoD IG's report summarizes 302 reports and testimonies issued by the Defense oversight community and GAO, detailing the systemic challenges that have been identified, and prospectively summarizing corrective actions taken and still pending, as well as other management initiatives taken or underway that impact DoD operations supporting Operation Enduring Freedom (OEF) and OIF.

Systemic Challenges by Functional Area

The DOD IG's report categorizes the systemic challenges into four areas: Contract Management, Logistics, Financial Management, and Other.

Contract Management – the Defense oversight community and GAO all reported on the challenges DoD has experienced with the lack of adequate oversight over contractors in both OEF and OIF.

Logistics – the Defense oversight community and GAO all reported on the challenges DoD has experienced with the logistics operations (accountability and visibility of assets, properly equipping forces, etc.) supporting OEF and OIF.

Financial Management – DoD experienced numerous challenges in providing accurate and reliable cost reporting for OEF and OIF operations.

Systemic Challenges Across Functional Areas

Aside from challenges in each functional area, the DOD IG's report also identified common challenges across functional areas. Specifically, training and policy and procedure challenges were identified in more than one of the functional areas: Contract Management, Logistics, and Financial Management.

DoD Initiatives

The Department has initiated many actions to address contract-related challenges in OEF and OIF. These initiatives included establishing and revising guidance, fielding a new contractor accountability system, adding new contingency contracting training at DoD academic institutions, and looking at contracting challenges through commissions and task forces. Additional details are available in the DoD IG report.

DoD Audit Community Initiatives

The Defense oversight community has also instituted its own initiatives to address the challenges presented to DoD in OEF and OIF operations. These initiatives include focused workforces, focused coordination groups, and comprehensive and coordinated oversight plans in response to statutory requirements. Additional details are available in the DoD IG report.

Defense Contract Audit Agency (DCAA)

DCAA is an integral part of the oversight and management controls instituted by

DoD to ensure integrity and regulatory compliance by contractors performing on government
contracts. DCAA's services include audits and professional advice to acquisition officials on

accounting and financial matters to assist them in the negotiation, award, administration, and settlement of contracts. Decision-making authority on DCAA recommendations resides with contracting officers within the procurement organizations who work closely with DCAA throughout the contracting process.

DCAA is the largest DoD audit operation and has, on average, 24 temporary duty personnel stationed in Iraq and Kuwait. To carry out its audit mission, DCAA established an office in Iraq in May 2003 and performs Iraq reconstruction audits at over 60 CONUS office locations. DCAA anticipates completing nearly 400 audits in FY 2008, using approximately 100 workyears, to support Iraq Reconstruction efforts.

As mentioned earlier, to date, DCAA has performed in excess of 2,500 GWOT-related contract audits, taking exception to \$12 billion as either not acceptable or not supported. As of March 30, 2008, DCAA is responsible for auditing contracts at 105 contractors. These contractors hold 226 prime contracts with obligated funding of over \$51 billion. The monetary result has been savings and restitutions in excess of \$1.3 billion.

Special Inspector General for Iraq Reconstruction (SIGIR)

The SIGIR, was created by Congress to provide oversight of the Iraq Relief and Reconstruction Fund (IRRF) and all obligations, expenditures, and revenues associated with reconstruction and rehabilitation activities in Iraq. SIGIR oversight is accomplished via independent audits, field inspections, and criminal investigations into potential fraud, waste, and abuse of funds.

Currently, SIGIR has 13 auditors (5 additional auditors are in-processing), 5 inspectors (3 additional inspectors are in-processing), and 4 investigators (1 additional investigator is in-processing) in Iraq. To date, SIGIR has produced over 230 audits and inspections that have uncovered instances of waste and inefficiency.

SIGIR auditors report on every major fund supporting the Iraq reconstruction program including the Commanders' Emergency Response Program (CERP), IRRF, Iraq Security Forces Fund (ISSF), and Economic Support Fund (ESF). SIGIR inspectors also travel across Iraq to provide on-site reports of project progress.

SIGIR made the following recommendations in its Contracting Lessons Learned Report to improve contingency contracting:

- Explore the creation of an enhanced Contingency Federal Acquisition
 Regulation (CFAR). SIGIR observed that agencies have developed agency
 specific regulations implementing the government wide Federal Acquisition
 Regulation (FAR).
- Pursue the institutionalization of special contracting programs such as the CERP which SIGIR noted before have unique roles in post conflict reconstruction.
- Include contracting and program management staff at all phases of planning for contingency operations.
- Create a deployable reserve corps of contracting personnel who are trained to execute rapid relief and reconstruction contracting during contingency operations.

- Develop and implement information systems for managing contracting and procurement in contingency operations.
- Pre-compete and prequalify a diverse pool of contractors with expertise in specialized reconstruction areas.

Actions Stemming from SIGIR Contracting Lessons Learned Recommendations

SIGIR recommendations were key to informing the development of updating Emergency Acquisition guidance issued by the Office of Management and Budget Office of Federal Procurement Policy in May 2007. The guide is designed to help agencies prepare the acquisition workforce for emergencies and includes a number of management and operational best practices that should be considered in planning related to contingency operations, antiterrorism activities, and national emergencies. SIGIR lessons learned directly contributed to the development of the guide.

In addition, the recently passed FY 2008 Supplemental Appropriations bill includes three provisions requiring improvements in Iraq reconstruction programs that were recommended in SIGIR Audits, namely:

- Improvements in Asset Transfer processes and coordination with GOI,
- Provisions to strengthen development and implementation of a comprehensive anti-corruption strategy, and
- Development of a longer-term strategy to guide the future of Provincial Reconstruction Teams in Iraq.

Gansler Commission Report

On September 12, 2007, the Secretary of the Army established an independent Commission on Army Acquisition and Program Management in Expeditionary Operations, headed by former USD (AT&L) Jacques Gansler. Dr. Gansler released the Gansler Commission Report on November 1, 2007.

Subsequently, the Department, led by Under Secretary of Defense (AT&L), established the DoD Task Force for Contracting and Contract Management in Expeditionary Operations to pursue the Commission recommendations so that future military operations achieve greater effectiveness, efficiency, and transparency. The DUSD (A&T) then established a Steering Committee of Senior Leaders from OSD, the Military Departments, the Joint Staff, and the JCC-I/A to provide visibility, oversight, and to ensure timely completion of Task Force initiatives. The Task Force evaluated the applicability of the recommendations and developed long-term, enterprise-wide solutions. Today, in order to maintain the momentum achieved to date, the Steering Committee continues to oversee and monitor the work of the Task Force. Also, to ensure accomplishment of the stated efforts/milestones, the Task Force is exchanging information every two weeks on the current status of efforts, roadblocks to accomplishment, and changes in reported estimated completion dates.

DoD and the Army reported to Congress on June 2, 2008, providing implementation plans and status for the recommendations—many of them long-term efforts—provided in the Gansler Commission Report. To date, DoD and the Army have completed almost half of the 40 total recommendations, including the addition of military and civilian structure and senior leadership oversight. Recommendations being implemented include the following:

- On January 30, 2008, the Army decided to establish a new two-star level Army
 Contracting Command under the Army Materiel Command. The new
 Command (Provisional stood-up 31 March 2008) includes two subordinate
 commands:
 - Expeditionary Contracting Command
 - Mission and Installation Contracting Command
- The Army established a new task force on 29 Feb 2008 to insure full analysis
 and fielding of long-term solutions to Army contracting. The work of this
 Task Force is ongoing and will continue as part of the Army Contracting
 Campaign Plan.
- The Army conducted an intensive review of more than 18,000 contract actions executed in Kuwait from 2003-2006 resulting in the settlement of claims that saved the Government over \$10.4 million.
- AMC deployed a team of contracting professionals to review contracts at the
 US Contracting Command Southwest Asia-Kuwait issued between 2003 and
 2006 to determine if there may be any additional fraudulent activity. Several
 contract actions were referred to the Army CID for further evaluation.

Progress towards completing the remaining Gansler Report recommendations is ongoing, including some recommendations requiring Congressional action, such as the authority to acquire products and services produced in a contingency theater of operations outside the U.S.

Defense Contract Management Agency (DCMA)

DCMA's mission is to perform Contract Administration Services for DOD, other Federal Agencies, foreign governments, and authorized international organizations. As the eyes and ears of the Department in contractor facilities, and as a Combat Support Agency, DCMA is responsible for ensuring the integrity of the government contracting process and providing a broad range of acquisition management services. DCMA services include acquisition planning support, contract management, quality assurance and product acceptance, engineering support services, software acquisition management, and property management. DCMA's contract management mission provides acquisition life-cycle support to our military services worldwide, as well as contingency contract support in Iraq and Afghanistan.

In FY08 alone, DCMA has conducted over 14,500 on-site quality assurance visits in Iraq and Afghanistan, discovering 13,000 quality defects and issuing 128 corrective reports.

Based on recommendations by the Gansler Commission, DoD is re-examining DCMA's staffing to determine if they are appropriately resourced to manage the current level of activity and their expanded role in support of contingency contracting.

Excellence in the Pursuit of Perfection

There is one point that I would like to emphasize in this statement for the record.

The Department of Defense, consisting of our military Services and inter-agency and industry partners, constitutes one of the largest and most complex enterprises in the world.

So, despite our best efforts, it is inevitable that problems will occur and people will make

mistakes—intentionally or otherwise. Nevertheless, our goal is to achieve excellence in the *pursuit* of perfection. So, we very much appreciate the many, dedicated people who spend countless hours carefully performing audits to help identify issues and problems that must be resolved and recommending actions to be taken. Without question, the audit process makes our system better.

We also appreciate the hard work of the hundreds of people who administer contracts on behalf of the Department of Defense. These individuals have a responsibility to serve the warfighting needs of our men and women in uniform, while protecting the best interests of the American taxpayers. By having DoD auditors work *in partnership* with these contracting officers as they negotiate, administer, and settle contracts we're better able to ensure all charges and claims are valid.

Combating corruption, waste, fraud, and abuse in Iraq

Unfortunately, in an imperfect world—there will be people who will attempt to abuse the system through fraud, corruption, theft, or other criminal behavior. But, what is important is that the Department has a system and a process in place that ensures we are alerted to any violations and we are able to identify, prosecute, and convict the offenders.

Investigations of possible offenses are conducted by DoD IG's Defense Criminal Investigative Service (DCIS) and partnering federal enforcement agencies, including Air Force Office of Special Investigations (AFOSI), Army Criminal Investigation Command (CID), U.S. Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), FBI, Immigration

and Customs Enforcement (ICE), IRS-CID, Naval Criminal Investigative Service (NCIS), SIGIR, USAID-OIG, and USDA-OIG.

In total, since May 2003, there have been over 160 criminal investigations resulting in 22 indictments, 32 informations, and 32 convictions. 124 of those investigations are currently ongoing within DoD IG and its partner enforcement agencies. The majority of investigations were performed jointly with other enforcement agencies, including Army CID and SIGIR.

In accordance with Generally Accepted Government Auditing Standards, DCAA auditors have a responsibility to refer matters that raise a reasonable suspicion of fraud to the appropriate investigative agency. DCAA takes this responsibility very seriously and has established comprehensive procedures to report all potential instances of fraud. In addition, DCAA auditors support fraud investigations. During the first nine months of FY 2008, DCAA auditors were involved in 84 completed investigations which resulted in DoD recovering \$97 million.

While the cases of fraud found in Iraq have been deplorable, their discovery and the subsequent indictments and convictions of offenders, sends a clear message that abuse of this kind will not be tolerated.

Conclusion

Overall, the many lessons learned in the areas of human capital management, contracting and procurement, and program and project management have led to significant process and organizational improvements across the Department.

On today's modern battlefield, "contracting" has clearly become one of many Battlefield Operational Systems. Improving the quality of this system is not just the responsibility of contracting officers, auditors, and investigators; rather it's the responsibility of all officers and military planners. To this end we are placing increased emphasis in our schools on every officer's knowledge of and responsibility for ensuring a quality contracting system.

DoD has increased oversight and accountability of deployed contractors and project requirements in expeditionary operations. The formation of the Joint Contracting Command-Iraq (JCC-Iraq) has provided a centralized point for the oversight of \$13 billion in hard construction contracts and several billion more in non-construction spending that was part of the Iraq Relief and Reconstruction Fund. Other contractor-related initiatives have included establishing an Executive Director for LOGCAP—a more than \$30 billion Services program—to provide program management oversight of logistical support. In an effort to expand transparency, the Department has also granted SIGIR direct access to JCC-Iraq's electronic contractual documents, thus allowing for real-time review and oversight of contractual actions. In February 2007, I—as Deputy Secretary of Defense, established the Cost of War Senior Steering Group to oversee the timely resolution of policy, system, and procedural issues that impact the reporting of the cost of war. The objective is to improve the

credibility, transparency, and timeliness of Cost of War reporting, to include the Commanders' Emergency Response Program (CERP). The Department has also deployed finance support teams to assist forward-deployed DoD elements, and we're reviewing and revising our federal financial management regulations to ensure proper and sufficient oversight and accountability of funds.

The Department continues to strive for excellence. In pursuit of this goal, the Department has made meaningful progress in efforts to address the challenges posed by oversight of defense contracts. We will continue to make improvements to ensure better effectiveness, efficiency, and accountability of resources and efforts across U.S. forces.

Chairman, Members of the Committee, thank you again for your continued and generous support of the outstanding men and women of our armed forces and their families.

We look forward to your questions.

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